Additional Data and Alternative Approaches Provided by Another Compensation Consulting Firm

- Frederic W. Cook & Co., Inc. valued the CEO award using three different approaches:
  - — Direct translation of the Cerulean transaction
  - — Comparison to other CEO transaction-related bonuses in companies outside the healthcare industry
  - — Comparison to stock option gains of CEO's in similarly-sized publicly-held companies

- The average of the three approaches is consistent with Hay recommendation ($8.1 million + $6.0 million + $8.4 million = $7.5 million average).

Equity Based Compensation Comparative Transactions

- Thirteen health care mergers from 1996 to 2001
- Range in transactions from $200 million to $2.2 billion
- Median compensation as a percent of transaction paid to executive officers (including CEO) - 2.38% (range generally from 0.33% to 4.50%)
- Median compensation as a percent of transaction paid to CEO - 0.88% (range generally from 0.19% to 3.63%)

Adjustment for Private Company

- All thirteen transactions involved public companies
- A reduction factor of 20% is commonly used for a private company like CareFirst
- Median compensation reduces to 1.90% for executive officers (including CEO)
- Median compensation reduces to 0.70% for CEO

Comparison with Cerulean Companies, Inc.

- For a $1.0 billion transaction:
  - — Executive officers (including CEO) receive $19.0 million (Cerulean received $17.9 million, for a $700 million transaction)
  - — CEO receives $7.0 million (Cerulean received $6.6 million, for a $700 million transaction

Retention Bonuses

- It is essential to retain other key executives through the merger:
  - — Maintain stability of operations
  - — Minimize risk of talent defection

- A multiple of base salary (0.5 to 1.0) is commonly used for this purpose

After this review, the committee requested that Don Barnes and Mark Muedeking present the materials to the Board of Directors.

Respectfully submitted,

Sharon J. Vecchioni

DRAFT

Minutes of the Executive Compensation Committee of the Board of Directors of CareFirst, Inc., held May 24, 2001

Members Present: Joe Haskins, Ed Baran (by Telephone), George Wilkes

Also Present: Dan Altobello, William Jews, Mark Muedeking, of Piper Marbury, Rudnick, & Wolfe, LLP, and Stuart Smith, Credit Suisse

The Compensation Committee held a special meeting to further explore the compensation issues for the management team in connection with a strategic initiative based on questions and requests for clarification from the Board of Directors. Mark Muedeking of Piper, Marbury, Rudnick & Wolfe, LLP, presented an updated presentation through the use of a handout which is made a part of these minutes.

Executive Compensation Discussion

Concerns

- The potential buyer has expressed a strong interest in retaining management after a Change of Control.
  - Allowing large severance at closing may create a disincentive to employment with the buyer.
- Payment acceleration of retirement/deferred compensation benefits creates the illusion of payment made solely on account of a Change of Control.
  - These amounts have been earned and vested over a number of years of service and would be paid at retirement in any event.
- The proposed transaction bonus is designed to align the interests of management with the interests of the stakeholders.
  - The proposed transaction bonus would create an incentive to close a transaction favorable to the stakeholders.

Proposal

- Modify employment agreements to require executive to work at least one year for the buyer before becoming eligible to receive Change of Control Severance benefits upon voluntary termination.
    - Assists buyer in retaining management
- Pay retirement and deferred compensation benefits only at retirement; do not accelerate payment.
    - Modify definition of retirement to allow for "early retirement" after employment with buyer
- Add transaction bonus to align the interests of management with the interests of the stakeholders.
    - Could be paid all at closing or in staged intervals based on interim milestones

The committee then reviewed the specific compensation amounts for each executive.

Following this review, the committee approved the recommendation and agreed to make this presentation to the combined Strategic Planning and Finance Committees.

Respectfully submitted,

Sharon J. Vecchioni

Strategic Purpose

CareFirst

"To Be A Leading Health Care Company Recognized for Excelling at Satisfying Customer Needs"

- $8 - $11 Billion in Revenues
- Serving 4.2 - 6.1 Million Members
- Total Capital Base of $1.5 - $1.7 Billion
- Top Market Position in Key Consumer Segments
- Three Times the Relative Market Share of Next Competitor

Seek a Strategic Partnership

Maintain Purchase Price of $1.3 Billion

Associate Benefits

CareFirst

- Seek to Provide Associates with a Competitive Benefit and Compensation Package
- Work to Minimize Associate Relations Issues

Retirement Plan Differences

All Associate Incentives

Retirement & Incentive Programs

CareFirst

- Retirement Program Provides Significantly Less Benefits to Associates ($7.7 million)
  - Average Associate - 25% Reduction
  - Longer service and older associates - as high as 50-75%
- Incentives Not Provided Below the Director Level
  - Loss for Associates from 4% to 15% of Pay ($13.6 million)

Seek to Grandfather All Existing CareFirst Associates in Current Retirement Program

Reconcile by Retaining Incentive Program or Increasing Base Pay

OCC 016358

CareFirst

Retention Bonus

OCC 016359